Keywords: Listed Company; dividend distribution; policy; China

Abstract. As one of the three major "puzzles" in finance, dividend distribution policies are financing decisions on profit retaining which have far-reaching influence on both the development strategy and image of a listed company. In the paper, analysis was carried out on the theories related to the dividend distribution policies for listed companies in China and some changes in the policies in recent two decades. It can be observed that national macro economy policies, securities market maturity, and equity structure and profitability of listed company are important factors influencing the dividend distribution policies for listed companies in China. Listed companies should gradually standardize and rationalize dividend distribution by following more strengthened law systems and regulations, optimizing equity structure, improving information disclosure quality, and enhancing profitability, thereby promoting long-term stable development.
those in developed countries like the US, listed companies in China do not follow stable dividend policies; nevertheless, the stability of dividend policies in China has been enhanced since 2000. (See Table 1 for documents concerning dividend distribution issued by the China Securities Regulatory Commission.)

Table 1. Policy Documents Concerning Dividend Distribution Issued by the China Securities Regulatory Commission.

<table>
<thead>
<tr>
<th>Issuance Date</th>
<th>Document Name</th>
<th>Main Contents Concerning Dividend Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov.30, 2013</td>
<td>Guidelines No. 3 on the Supervision and Administration of Listed Companies – Cash Dividends of Listed Companies</td>
<td>Firstly, listed companies are urged to standardize and improve their respective internal decision-making process and mechanism and increase the transparency of cash dividend distribution. Secondly, listed companies are supported to provide returns to shareholders in differentiated and diversified modes. Thirdly, it is required to improve regulations on dividend distribution and strengthen supervision and inspection.</td>
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<tr>
<td>Nov.10, 2011</td>
<td>Urge Listed Companies to Define Their Own Return Mechanisms</td>
<td>To further urge listed companies to elevate their level of returns for shareholders, the China Securities Regulatory Commission requires that all listed companies must complete their dividend policies and decision-making mechanisms, scientifically make decisions on dividend policies by comprehensively analyzing their own operation and development realities, shareholders' requirements and wills, social capital cost, external financing environment, and other factors, and improve the transparency of cash dividend distribution. To be specific, the China Securities Regulatory Commission requires a company to include detailed return rules, dividend policy, and dividend distribution plans in its prospectus and underline them as major issues during its initial public offering; meanwhile, the Commission will systematically sort and research dividend tax policies with an aim to promote the rationalization of such policies and mobilize the initiative of listed companies for cash dividend distribution.</td>
</tr>
<tr>
<td>Oct. 9, 2008</td>
<td>Decisions on Amending Some Provisions on Cash Dividends of Listed Companies</td>
<td>Any listed company that makes a public issuance of securities shall meet the condition that the profits which it has accumulatively distributed in cash shall not be less than 30% of the average annual distributable profits realized in the recent 3 years. The company that has made profits in the current reporting period but does not present a plan for cash profit distribution shall explicitly explain the reasons for failing to distribute dividends and the purpose for the capitals kept in the company that are not used for dividends; it shall disclose the situation of implementation of its cash dividend policy in the current reporting period and shall also explicitly disclose the amount of cash dividends and the ratio of its cash dividends to its net profits in the first three years by giving a list.</td>
</tr>
<tr>
<td>May 6, 2006</td>
<td>Administrative Measures for the Issuance of Securities by Listed Companies</td>
<td>Any listed company that makes a public issuance of securities shall meet the condition that the profits which it has accumulatively distributed in cash or in stocks are not less than 20% of the average annual distributable profits realized in the recent 3 years.</td>
</tr>
<tr>
<td>Dec. 7, 2004</td>
<td>Several Provisions on Strengthening the Protection over Public Shareholders' Equity</td>
<td>Any listed company whose board of directors does not make a plan for cash profit distribution shall explain the reasons in periodic reports, and the independent director shall present his/her independent opinions on this. Any listed company that did not distribute profits in cash in the recent 3 years shall not issue additional new shares or convertible bonds to the public or conduct share placement to its original shareholders.</td>
</tr>
<tr>
<td>Mar.28, 2001</td>
<td>Administrative Measures for the Issuance of New Shares by Listed Companies</td>
<td>In case any listed company did not distribute dividends in the recent 3 years and its board of directors did not give a reasonable explanation for non-distribution, the securities company acting as the lead underwriter shall pay attention to this and explain this in the report of due diligence.</td>
</tr>
</tbody>
</table>

2.2 Policy Documents Concerning Dividend Distribution Issued by the China Securities Regulatory Commission

Guidelines No. 3 on the Supervision and Administration of Listed Companies – Cash Dividends of Listed Companies issued on Nov. 30, 2013 has pointed out following principles: Firstly, listed
companies are urged to standardize and improve their respective internal decision-making process and mechanism and increase the transparency of cash dividend distribution. Secondly, listed companies are supported to provide returns to shareholders in differentiated and diversified modes. Thirdly, it is required to improve regulations on dividend distribution and strengthen supervision and inspection.

Urge Listed Companies to Define Their Return Mechanisms was issued on Nov. 10, 2011 has pointed out that to further urge listed companies to elevate their level of returns for shareholders, the China Securities Regulatory Commission requires that all listed companies must complete their dividend policies and decision-making mechanisms, scientifically make decisions on dividend policies by comprehensively analyzing their own operation and development realities, shareholders’ requirements and wills, social capital cost, external financing environment, and other factors, and improve the transparency of cash dividend distribution. To be specific, the China Securities Regulatory Commission requires a company to include detailed return rules, dividend policy, and dividend distribution plans in its prospectus and underline them as major issues during its initial public offering; meanwhile, the Commission will systematically sort and research dividend tax policies with an aim to promote the rationalization of such policies and mobilize the initiative of listed companies for cash dividend distribution.

Decisions on Amending Some Provisions on Cash Dividends of Listed Companies was issued on Oct. 9, 2008, pointing out that any listed company that makes a public issuance of securities shall meet the condition that the profits which it has accumulatively distributed in cash shall not be less than 30% of the average annual distributable profits realized in the recent 3 years. The company that has made profits in the current reporting period but does not present a plan for cash profit distribution shall explicitly explain the reasons for failing to distribute dividends and the purpose for the capitals kept in the company that are not used for dividends; it shall disclose the situation of implementation of its cash dividend policy in the current reporting period and shall also explicitly disclose the amount of cash dividends and the ratio of its cash dividends to its net profits in the first three years by giving a list.

Measures for the Issuance of Securities by Listed Companies was issued on May 6, 2006 has pointed out that issuance of securities by listed companies should meet the profits that it has distributed accumulatively in cash or in stocks in the latest three years are not less than 20% of the average annual distributable profits realized in the latest three years.

Several Provisions on Strengthening the Protection over Public Shareholders’ Equity was issued on Dec. 7, 2004 has pointed out that any listed company whose board of directors does not make a plan for cash profit distribution shall explain the reasons in periodic reports, and the independent director shall present his/her independent opinions on this. Any listed company that did not distribute profits in cash in the recent 3 years shall not issue additional new shares or convertible bonds to the public or conduct share placement to its original shareholders.

Administrative Measures for the Issuance of New Shares by Listed Companies was issued on Mar. 28, 2001 has pointed out that In case any listed company did not distribute dividends in the recent 3 years and its board of directors did not give a reasonable explanation for it; the security company acting as the lead underwriter shall pay attention to this and explain this in the report of due diligence.

2.3 Factors Influencing Dividend Distribution for Listed Chinese Companies

2.3.1 The dividend distribution policies of listed companies are influenced by the macro economy and national policies and regulations.

As long as the macro economy runs soundly and the state implements a positive financial policy and prudent monetary policy, listed companies will be active in distributing dividends; once economic development is overheated and the state implements a tight monetary policy, listed companies will become less willing to distribute dividends. Furthermore, dividend distribution is also influenced by laws and regulations. Company Law prescribes that a company shall not distribute dividends unless the losses of previous years have been made up and a certain proportion of legal reserves have been drawn from its after-tax profits of the current year.
2.3.2 Dividend distribution policies are distorted by the immature securities market and lagging regulatory system.

The securities market in China still has many imperfections, the dividend payout ratio is not high, and a distorted equity structure is a basic feature. Cash dividends make it easier for investors to control stock risks, and hopefully stock price fluctuations can be controlled within an appropriate range. On the contrary, stock dividends increase the uncertainty of the market, and fierce fluctuations in the stock price will cover the real impact on the stock price from most relevant information transmitted via normal channels, thus causing dividend policy to have an insignificant role as an information transmission mechanism. In addition, the lagging regulatory system means securities are unable to keep up with the development speed of the securities market, and administrative orders are usually used to standardize the market; however, dividend policy should be determined by a listed company itself, fully relying on administrative orders will only lead to a distortion in dividend policies.

2.3.3 Equity structure is another important factor influencing dividend distribution.

Companies listed in China have significant characteristics, such as, the coexistence of state shares, legal personals shares, public shares, and internal staff shares. The largest shareholders holding state shares are in a position that other shareholders are unable to compete with, but the actual controlling rights representing state shares are in the hands of the listed company's management; management will try its best to acquire the controlling rights in consideration of its own interests. This results in the situation that the actual controlling rights of partially listed companies are in the hands of the listed company's management; management will try its best to acquire the controlling rights in consideration of its own interests. This results in the situation that the actual controlling rights of partially listed companies are in the hands of internal controllers and gives rise to less dividend distribution.

2.3.4 The profitability of a listed company is also an influencing factor for dividend distribution.

The higher a listed company's profitability, the more distributable profits it has, and the more likely it is to issue dividends to shareholders. It is difficult for a company with meager profits or a deficit to consider issuing dividends.

2.4 Suggestions on improving of the dividend distribution policies for listed companies

2.4.1 Strengthening the development of laws and regulations

The China Securities Regulatory Commission issues both compulsory and directive provisions on dividend distribution, but the specific distribution policies are formulated internally by listed companies, leading to the arbitrary nature of current dividend distribution policies. Hence, there should be regulations to restrict the dividend distribution policies of listed companies urging them to enact stable dividend policies suitable for a long-term enterprise development strategy according to their own operating performance; further, policies and regulations should be introduced to guide dividend distribution behavior, and specifications should be formulated to maintain the stability of dividend policies.

2.4.2 Optimizing equity structure

Most listed companies in China are restructured from state-owned enterprises; therefore, to further address the deep-seated drawbacks existing in dividend distribution practice, we should standardize corporate governance structures. Listed companies should welcome diversified investors and strengthen the balance of interests between different shareholders. Moreover, the powers and responsibilities of management and ownership should be well defined, property rights should be clarified, and internal balancing mechanisms should be adjusted to reduce the absolute control wielded by large shareholders.

2.4.3 Improving the quality of disclosed information and completing the capital market entry and exit mechanisms

Increasing information transparency is an important tool in reducing insider trading. Improving the transparency and quality of information disclosure will not only help to standardize the company's behavior, but information asymmetry can also be reduced, so that investors will be able to use the
reports disclosed by the company to obtain suitable information to make rational investment decisions. Additionally, regulatory departments should require listed companies to take account of long-term dividend distribution policies and accept public supervision over their dividend distribution plans. This is an important sign of market maturity and a basic goal pursued by the Chinese securities market.

Due to the protective influence of parent companies or local governments and other factors, exit mechanisms for listed companies are difficult to effectively implement, so companies suffering losses fail to exit the market quickly. The incomplete external constraint mechanism means Chinese listed companies attach little importance to dividend distributions. For this reason, regulatory departments should limit government intervention in the operation of listed companies and implement a strict exit mechanism. This will ensure that only companies with real potential are able to get listed and that companies suffering losses exit the market quickly, thereby improving the overall quality of listed companies.

2.4.4 Improving profitability

Long-term stable profits are the fundamental source of distributed dividends. Shareholders can only obtain long-term stable dividends and capital gains from listed companies that possess relatively high profitability and profit quality. As a result, listed companies should make efforts to improve their own profitability and develop innovative business practices to achieve the goal of corporate value maximization.

3. Conclusion

Along with the rapid development of capital market, listed companies attach more and more importance to dividend distribution. Under the supervision of the China Securities Regulatory Commission and the guidance of market in recent years, the dividend distribution of listed companies in China is being increasingly standardized and rationalized.

Through analysis on the theories related to the dividend distribution policies for listed companies in China and some changes in the policies in recent two decades, the paper demonstrates that national macro economy policies, securities market maturity, and equity structure and profitability of listed company are important factors influencing the dividend distribution policies for listed companies in China. Listed companies should improve their dividend policies by means of strengthened law system and regulations, optimizing equity structure, improving information disclosure quality, and enhancing profitability, in order to protect the interests of investors, boost their long-term stable development, and further impel the national economic development to make new progress.

4. References


